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ISSUES IN ECONOMICS

AFT RESEARCH REPORT

AN ECONOMIC UPDATE
(issued September 7, 1982)

Is Recovery At Hand? No, Says Prominent Economist.

Economist Otto Eckstein observed in late August that there were still no signs of a genuine business upturn, in spite of statements to the contrary by President Reagan and Administration officials. Eckstein made the following comments about recent economic news:

- Housing starts rose 33.7% to 1.21 million, but virtually the entire increase was in apartments that builders got approved before the July 31st expiration of a subsidy program. Housing starts are likely to retreat closer to the 1 million unit level in August and September.

- Personal income was up a full percentage point, with more than half due to transfer payments--mainly the social security benefit increase.

- Disposable income was up by 2.1%, aided by the $25 billion reduction in personal income taxes.

- Consumer outlays were up 1.1%, but from a very depressed June level. In real terms, July consumption was still below the August 1981 level.

- The GNP revision lowered the second-quarter growth rate from 1.7% to 1.3%, with the markdown concentrated in consumption and business fixed investment in equipment.

- Durable goods orders in manufacturing rose 3.2% in July, retracing their June decline. The rise was mainly in machinery industries. The backlog of unfilled orders continued to shrink. Shipments were up 0.6%, with the important nondefense capital goods component down 0.5%. In real terms, this measure of capital goods sales is now 16.4% below its February 1980 peak.

- Unemployment insurance claims, which had been averaging 525,000 people in recent weeks, down from near 600,000 for much of this year, bounced back to 621,000 in the week ending August 21 a sign that there is still no strong positive pulse running through the economy.

Eckstein also stated the recent financial rallies have resulted from an easing of monetary policy by the Federal Reserve in recognition of the lack of any signs of economic recovery. Interest rates have fallen because of the effect of the Reagan Recession in lessening the demand for business borrowing.

While these recent events do not substantially increase the prospects for an early real recovery, they do lessen the risk of a deeper recession or prolonged stagnation, according to Eckstein. He particularly points out that state and local governments will continue to suffer a financial squeeze as federal grants are cut and tax revenues remain depressed.

In early September, Eckstein stated that the economy did not recover in August and there is still some evidence of small further decline.

New Publication on Special Needs Students.

The Education Commission of the States has issued a new publication, "State and Federal Programs for Special Student Populations," which reviews the extent of federal and state involvement in programs for special student populations and discusses state funding structures for these programs. Detailed information is contained by compensatory education, bilingual education, and special education. This publication (ECS Report No. F82-2) is available for $4.00 from the ECS Distribution Center, Suite 300, 1860 Lincoln Street, Denver, Colorado, 80295.

State and Local Government Wage Increases Average 7.6 Percent.

The U.S. Department of Labor's Bureau of Labor Statistics (BLS) reports contract settlements for workers in state and local governments in units with at least 5000 workers. Data were recently reported on 21 settlements reached during the first half of 1982, covering 308,000 workers.

First year wage increases averaged 9.1 percent for state government workers and 5.3 percent for local government workers. Total compensation increases for the first year averaged 9.7 percent at the state level and 5.6 percent at the local level. State wage increases for the first half of 1982 were up from 8.1 percent for 1981, while local government wage increases were down from the 1981 average of 6.7 percent. For all state and local government settlements in the first half of 1982, the wage increases averaged 7.6 percent and total compensation increases averaged 8.1 percent.

Complete data on these settlements is found in the BLS news release, "State and Local Government Collective Bargaining Settlements, First 6 Months of 1982" (No. 82-294), issued August 23, 1982.

DRI August Forecast.

The August forecast of the U.S. economy released on August 26 by Data Resources, Inc. is summarized as follows:

	1982			
	3rd. q.	4th q.	1983	1984
CPI[a]	8.2	4.6	6.0	6.3
Unemployment rate[b]	9.7	9.5	9.1	8.5
Growth in GNP[a]	1.5	3.0	3.1	4.1
Growth in State & Local Gov't.[a]	- 0.6	- 1.6	- 1.7	- 0.7
Prime Rate[b]	13.9	12.2	13.6	13.0

a - percent change, seasonally adjusted annual rate

b - percent

The forecast does not see significant economic recovery before mid-1984.

Real Earnings Down Over Year Ago.

The real average weekly earnings (adjusted for inflation) for nonsupervisory workers on private nonfarm payrolls for July 1982 were down 1.4 percent from July 1981, but up 0.2 percent from June 1982. The one month increase in July followed a 1.4 percent one month decrease in June 1982. Over two-thirds of the one year drop from July 1981 to July 1982 can be accounted for in the decrease in average weekly hours worked. The drop in real average weekly earnings and the decrease in weekly hours worked both show that the Reagan Recession has continued through July.

California Poll Shows Strong Support for Public School Funding.

There is strong support for increased funding for public schools in California, according to a poll conducted by Opinion Research of California for the Association of California School Administrators and the California School Boards Association. The poll, released at a Sacramento news conference on August 11, 1982, was conducted among a sample 600 registered California voters of whom two-thirds had no children in school and three-quarters were home-owners.

By a 53-19 percent margin those polled thought that California public school expenditures should be among the upper ten in the nation. California now ranks 24th. California voters also favored annual cost-of-living increases for public education, local power to increase property taxes for schools, and local determination of spending priorities. The latter two points are in direct repudiation of Proposition 13 and its effect on local schools.

Those polled favored increasing state taxes on cigarettes, beer and wine, and oil production to provide additional funding for public schools, but did not favor increasing the state income tax or sales tax exclusively to fund public education. By almost two-to-one these registered voters felt that public education should have the first call on all California state revenues.

Complete poll results follow:

PUBLIC OPINION POLL SURVEY

		Agree	Disagree
1.	The cost for California public school education per resident should be among the upper 10 in the whole nation	53%	19%
2.	Public education expenses should have first call upon all revenues collected by the State of California	54%	28%
3.	Expenses for public education should receive a cost-of-living increase each year	56%	25%
4.	Local residents should be allowed to vote to increase their own property taxes to support their local schools	68%	16%
5.	The personal state income tax should be increased exclusively to provide funding for public education	25%	56%

		Agree	Disagree
6.	The state tax on cigarettes should be increased exclusively to provide funding for public education	56%	32%
7.	California sales tax should be increased exclusively to provide funding for public education .	28%	55%
8.	State tax on beer and wine should be increased exclusively to provide funding for public education	52%	33%
9.	The state tax on oil producers should be increased exclusively to provide funding for public education	44%	38%
10.	State funding for public education should be linked to revenue raised by specific state taxes, such as the income tax or sales tax, which could be increased or decreased depending upon the financial needs of the public schools	49%	31%
11.	Local elected school boards should have the authority to raise some local tax revenues for local educational programs	33%	51%
12.	Local elected school boards rather than the State Legislature should determine spending priorities within local school districts	67%	18%

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